

VZCZCXYZ0008
RR RUEHWEB

DE RUEHSN #0381/01 0601903
ZNY CCCCC ZZH
R 011903Z MAR 07
FM AMEMBASSY SAN SALVADOR
TO RUEHC/SECSTATE WASHDC 5343
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE

C O N F I D E N T I A L SAN SALVADOR 000381

SIPDIS

SIPDIS

E.O. 12958: DECL: 03/01/2017
TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [PGOV](#) [ES](#)
SUBJECT: AMBASSADOR GLAZER MEETING WITH MINISTER OF ECONOMY
REF: TEGUCIGALPA 336

Classified By: DCM MICHAEL A. BUTLER FOR REASONS 1.4 B, D

1) (SBU) Summary. In his introductory meeting with Minister of Economy Yolanda de Gavidia, the Ambassador discussed the upcoming first anniversary of entry into force of CAFTA-DR for El Salvador, fuel prices and production of ethanol, the influence of Venezuela, and the electrical sector. While pleased with CAFTA-DR and the prospects of attracting additional foreign investors, the Minister was also looking to the 2009 elections and how energy prices and policy might affect ARENA's chances for re-election. End Summary.

2) (U) Ambassador Glazer raised several issues when he met February 2nd with Minister of Economy Yolanda de Gavidia. The Econ Counselor and Econoff also attended the meeting. Minister de Gavidia spoke about the success of CAFTA-DR in El Salvador as it approaches the one year anniversary of entry into force in the country. She said overall exports to the United States were up, driven by an increase in the sugar quota as well as increases in non traditional exports. To commemorate the first anniversary the Ministry of Economy is planning to honor new exporters who have taken advantage of the free trade agreement. De Gavidia said she was pleased that the Ambassador and EEB A/S Sullivan would participate in the event. (Note: We subsequently learned that President Saca will also participate. End Note.)

3) (SBU) The Ambassador said that while there were many positive developments regarding CAFTA-DR, there were still some implementation problems, like allowing the import of U.S. eggs. The Minister acknowledged that not everything is perfect, but claimed that this case is not a specific CAFTA-DR problem, as eggs were not negotiated as a part of CAFTA-DR and there is no equivalence. Econ Counselor demurred and said the issue could be raised with the WTO. The Minister said she wanted to help and asked to let her know what her office could do to resolve the issue.

4) (SBU) Turning to the electrical sector, de Gavidia said the special Legislative Commission investigating prices in the gasoline and electrical markets was formed more to study electricity than gasoline. This is the opposite of local press coverage, which has focused exclusively on gasoline prices. She said there would be continued reforms of electrical sector regulations in the Legislative Assembly, but actors in the sector would have input into the legislation. She also commented that local distribution companies need to work on their image, currently low in the public opinion due to service disruptions and voltage fluctuations. (Comment. Econ officers met with George C. Moore Co., a U.S. owned fabric producer, who are very concerned over the quality of electricity they are receiving. They have had equipment damaged by electrical surges, and say that quality of electricity, rather than price, would be a show stopper for some companies looking to invest in El Salvador. End Comment.)

5) (C) The Minister told the Ambassador that she is concerned about the influence of Venezuela and the activities of Albapetrol, the fuel import company set up by local FMLN mayors. She believes Albapetrol will finance political activities rather than simply manage fuel distribution. She said there have been Venezuelan engineers in the country, and there are plans to construct fuel storage tanks, which may be available to supply fuel provided by Venezuela prior to the 2009 elections. They were also watching with great interest how the Ortega Government will behave in Nicaragua. She said the situation in Honduras with the fuel tender illustrates that 'funny business', i.e. trying to manipulate the market can work for populist gains. (Note. Subsequent reporting, reftel, indicates that Honduras might be moving back to the Salvadoran free market model. Also, an industry rep told econoff February 22 that property near the port of Acajutla had been purchased for the Albapetrol fuel storage tanks. End Note.)

6) (SBU) Ambassador Glazer raised the current negotiations with a major U.S. electronics company looking at expanding their operations into El Salvador. The GOES was told that they were competitive on labor costs, but not on logistics costs, which were higher than the company expected. The GOES is looking over the numbers and will submit revised transportation cost figures to the company. De Gavidia said she was optimistic about El Salvador's prospects to secure the new investor.

7) (SBU) Econoff raised another potential barrier to investors, the expiration of free trade zone (FTZ) benefits in 2008. The Minister said El Salvador is following a two pronged approach to solve the problem. They are asking for a 10 year extension of the FTZ benefits, as well as developing an Industrialization Law that will provide many of the same benefits but in a WTO compliant manner.

8) (SBU) The Minister spoke briefly about the use of ethanol in the country, and how the ministry is working on a law to mandate a 10 percent ethanol mix in gasoline. She said they would like to avoid subsidies for the use of ethanol, instead trying to promote its production through a guaranteed price, as well as a possible elimination of the road maintenance (FOVIAL) tax of \$0.20 per gallon currently levied on gasoline and diesel. Econ Counselor told her that during EEB A/S Sullivan's upcoming visit to El Salvador he would visit a facility where ethanol is derived from sugar cane as an alternative fuel.

9) (C) Comment: The meeting was an open and frank discussion of some of the many economic challenges facing El Salvador. It also provided insight as to the extent of GOES worries of meddling in politics by Venezuela through Albapetrol or from Nicaragua. Policy implementation by the government is seen first through the prism of the 2009 elections, and the Minister's comments as related to energy show how sensitive the government is to price increases. With two years to go until the elections, it will be difficult for the government to manage price increases that could hurt it at the polls; at the same time decisions made with 2009 in mind have implications for long term development of the country. End Comment.
Glazer